130 (13)

No. 08-448

Supreme Court, U.S.
FILED
JUN 9 - 2009
CLERK

IN THE

Supreme Court of the United States

CABLE NEWS NETWORK, INC. ET AL.,
Petitioners,

v.

CSC HOLDINGS, INC. AND CABLEVISION SYSTEMS CORP.,
Respondents.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Second Circuit

SUPPLEMENTAL BRIEF OF PETITIONERS IN RESPONSE TO THE BRIEF OF THE UNITED STATES

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June 9, 2009

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The Government's arguments against review actually serve to demonstrate why a grant of certiorari is urgently needed. As Petitioners have shown, the Second Circuit's decision treating Cablevision's on-demand delivery of copyrighted programming as equivalent to Sony's sale of a VCR intensifies a troubling trend in the lower courts toward viewing secondary liability – based derivatively on consumer conduct – as the only way to enforce copyrights against commercial services delivering content digitally. Far from rebutting this point, the Government's brief drives it home by arguing that Petitioners should be denied review because they sued Cablevision for direct and not secondary infringement.

It is also telling that to oppose review, the Government is forced to offer various extreme and unpersuasive interpretations of the Copyright Act and prior case law, while simultaneously ignoring the breadth and novelty of the legal standards the Second Circuit applied. It remains clear that the Second Circuit read the Act in ways that cannot be squared with the statutory language or prior rulings of other courts. Indeed, the Government admits that the court below completely misunderstood the key statutory definition of public performance as it applies to on-demand services.

The resulting confusion about how the Act applies to emerging models for electronic delivery will inhibit legitimate investment while encouraging a proliferation of unlicensed services that will become entrenched before their illegality can be firmly

established. The Government simply ignores that practical reality without offering a response. Unless this Court acts now, a corrective decision years down the road will not be able to undo the damage.

I. Review Is Urgently Needed.

A. Deferral of Consideration of the Questions Presented Makes No Practical Sense.

The Court should not accept the Government's call to allow the issues presented to "percolate" further. The many media companies here challenged Cablevision's service on direct liability grounds for good reason. Cablevision seeks not to sell copying equipment or software, which would properly be analyzed under secondary liability, but to deliver Petitioners' actual copyrighted content to consumers without authorization, which can properly give rise to direct liability. Thus, Cablevision's theory that this case is governed by *Sony Corp. of America v. Universal City Studio, Inc.*, 464 U.S. 417 (1984), radically upends copyright law by inverting the proper relationship between direct and secondary liability claims. And the Second Circuit's acceptance of that theory creates an urgent need for review. As shown by the outpouring of amicus support for Petitioners (and heavy amicus involvement on both sides below), this case is a bellwether. Denial of certiorari will leave in place massive uncertainty about how copyright law applies to digital content delivery.

The Government's brief itself shows why review is needed by suggesting that the Second Circuit's ruling was reasonable in light of *Sony* and faulting

Petitioners for not casting their case in terms of secondary infringement. That illustrates how this Court's decision in *Sony* is morphing into an unlikely template for all copyright challenges to digital content delivery services. It makes no sense to suggest that a commercial business selling copies or performances of copyrighted works delivered electronically can, at most, be secondarily liable for what its customers do. This Court must correct that serious misreading of its own precedent to clarify the proper and primary role of *direct* liability claims in the digital world, just as in the physical one. *See also infra* at 6-7 (observing that direct liability is typically the *only* available remedy for paradigmatic copyright piracy).

The Government's call for "percolation" also resolutely ignores practical reality by never even mentioning – much less answering – Petitioners' showing that review is needed now because of the lightning pace of change in the models for content delivery. Even if someone did challenge another company's RS-DVR service in another circuit in the future – a prospect that is highly speculative assuming the failure of this substantial challenge brought by major media companies – it would take years for a conflict to arise and then be resolved. That will be too late. In our digital age, five years is like a half century in eras of less rapid technological development. By the time this Court might consider the RS-DVR again in another case, these unlicensed and profitable services will have become entrenched in the marketplace and difficult if not impossible to dislodge.

In those intervening years, the uncertainty created by the Second Circuit will also inevitably affect how *other* content delivery models evolve. Aggressive operators will accept the Second Circuit's multiple invitations to set up new kinds of unlicensed services. Meanwhile, investment in extant and future licensed on-demand services will likely dry up in the face of that unlicensed competition. A decision by this Court upholding the rights of copyright owners years hence will therefore have little practical utility. The rapid introduction of many types of unlicensed on-demand service on cable, the Internet, and other media will have transformed business models and consumer expectations in ways that cannot be unscrambled.

Moreover, by the Government's logic, no case involving new unlicensed ways of exploiting copyrighted works will ever be appropriate for the Court to review. The Government contends that set-top DVRs are beyond legal challenge because they are now prevalent in the marketplace and, in any event, differ only incrementally from the VCRs addressed in *Sony*. And it contends that RS-DVR services should likewise escape review because they purportedly differ only incrementally from set-top DVRs – although the Government concedes that Cablevision's transmission of Petitioners' programming into subscribers' homes fundamentally distinguishes RS-DVR from set-top DVRs under copyright law, *see* U.S. Br. 20. By the same logic, review will not be warranted once RS-DVR is entrenched and the next unlicensed service makes another "incremental" modification, such as

elimination of the multiple copies created by Cablevision's service (which serve no functional purpose in any event). Yet, this series of incremental steps already has crossed the threshold to permit the wholesale commercial exploitation of copyrighted content without a license. As noted, the Government's own brief provides dramatic proof of how *Sony*'s narrow ruling about the sale of an article of commerce used exclusively within the home has mutated into a rule viewed by many as governing all infringement claims against commercial on-demand content delivery services.

B. Each Holding Below Creates a Conflict of Authority.

The Government is just as unpersuasive when it denies that the Second Circuit's rulings depart from prior decisions of this Court and other circuits. It asserts that none of the Second Circuit's "specific holdings" creates a conflict. U.S. Br. 8. But as the careful emphasis on "specific" holdings suggests, that is true only in the inconsequential sense that no other court has specifically addressed an RS-DVR service. The Second Circuit's *legal tests* addressing each claim departed substantially from the tests applied by other courts. Such a decision should not evade review just because it ritualistically incants that it addresses only "the facts of this case," when each ruling actually flows from application of a rigid rule turning on a single factor and excluding all other facts as irrelevant.

First, the court held that Cablevision's direct liability for making full-length copies on its servers

depends entirely on whether a human employee becomes involved when consumers select particular programs Cablevision supplies for copying, and that all of Cablevision's other conduct is simply irrelevant. *See* Pet. 8-11, 24-25. That ruling conflicts with *New York Times Co. v. Tasini*, 533 U.S. 483 (2001), which held that computerized services *themselves* engage in copying and distribution of copyrighted articles even when their customers direct the computers to retrieve and deliver those articles. The Government asserts *Tasini* did not address who makes the copies when a customer directs a database to deliver content. U.S. Br. 8. But that was the precise issue when the Court rejected the notion that the databases "could be liable only under a theory of contributory infringement, *based on end-user conduct*," because the databases directly infringed by "*selling* copies of the Articles" – *i.e.*, reproducing and delivering copies in response to consumer requests. 533 U.S. at 504 (emphasis added).

Whether a commercial service directly engages in reproduction or other infringing conduct when it automatically responds to user requests is, moreover, one of the most important questions in copyright law today. The Government tries to trivialize it by noting that the line between direct and secondary infringement is often blurred. But that does not diminish how critical this question is, because in many cases – such as *Tasini* itself, or paradigmatic piracy like manufacturing bootleg DVDs – a commercial service is either liable for infringement directly, or not at all. *See* Pet. 21; Reply 6-7. Yet,

like several other lower court cases (but unlike *Tasini*), the decision below inverts the very structure of copyright law by treating secondary liability as the norm and direct liability as exceptional. That trend, rooted in a fundamental misreading of *Sony*, substantially constricts the ability of copyright owners to secure their rights, particularly with regard to the on-demand services that are becoming the norm in this digital age.

Second, the Government denies any conflict between the Second Circuit's ruling addressing buffer copies and *MAI Systems Corp. v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir. 1993), which adopted a single-prong functional test without adding the Second Circuit's separate durational requirement. Pet. 29-30. In denying the split, the Government endorses as "reasonable" the Second Circuit's indefensible reading of *MAI* as not really adopting a test at all, and therefore leaving open the possibility of an additional durational prong *sub silentio*. U.S. Br. 9-10. This is a glaring example of how far the Government had to go in order to respond to Petitioners' arguments for review. As the Copyright Office has recognized, under *MAI* there is only a functional test for what is "fixed."[1] It follows that application of the Ninth Circuit's test would have required a ruling for Petitioners here. That means there is a circuit conflict.

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[1] U.S. Copyright Office, *DMCA Section 104 Report* (Aug. 2001), at 118-19, *available at* http://www.copyright.gov/reports/studies/dmca/sec-104-report-vol-1.pdf.

The position staked out by the Government in fact intensifies the uncertainly created by the Second Circuit's durational requirement. On its face, the ruling below requires a fixed copy to exist longer than 1.2 seconds (the time each portion of a program is reproduced in Cablevision's buffer memory), but does not say how much longer. The Government's brief multiplies the uncertainty with the puzzling assertion that 1.2 seconds may or may not be long enough to be infringing, depending on other unstated and hard-to-imagine factors that are neither part of the statute nor described. U.S. Br. 19-20.

Third, the Government concedes that the Second Circuit, in its analysis of the public performance right, errs in relying on the proposition that "under the transmit clause, we must examine *the potential audience of a given transmission* by an alleged infringer to determine whether that transmission is 'to the public.'" Pet. App. 36a (emphasis added). As the Government acknowledges, "[s]uch a construction could threaten to undermine copyright protection in circumstances far beyond those presented here, including with respect to VOD services or situations in which a party streams copyrighted material on an individualized basis over the Internet." U.S. Br. 20-21. It also conflicts with decisions such as *Columbia Pictures Industries, Inc. v. Redd Horne, Inc.*, 749 F.2d 154 (3d Cir. 1984). But the Government says this central defect in the Second Circuit's public performance ruling can be ignored because the court distinguished prior cases as involving transmissions made from a single copy of a work rather than the multiple copies on the RS-

DVR server. U.S. Br. 21. What the Government fails to explain is how that factual distinction is legally significant or logically can be derived from the Act, which makes no mention of copies involved in a public performance. A conflict should not be dismissed because of a factual difference that has no relevance under the Act.

The question whether separate on-demand transmissions of a work to individual audience members constitute a public performance is critically important in the digital era. Indeed, even the Second Circuit's "specific holding" limited to services that use a separate copy for each transmission has sweeping importance because other services will imitate Cablevision's copy-then-play model for evading the license requirement. The Government's response that such other services might be found secondarily liable for copying – but not public performance – is misguided on two counts. First, it again wrongly assumes that secondary liability is an adequate remedy for a commercial enterprise's exploitation of copyrighted works. In addition, it would mean that the public performance right is not separately enforceable in the on-demand era, and can only be enforced indirectly through liability for reproduction. But one of the key innovations of the 1976 Act was to make each § 106 right separately transferable and enforceable. *E.g.*, 17 U.S.C. § 201(d).

Given these conflicts, this case easily meets traditional standards for certiorari, particularly in light of the importance of the issues presented. The Second Circuit's decision moves the law far in the

direction of saying that a computerized service in the *business* of copying and performing content on demand can be challenged, if at all, only for vicarious or contributory infringement. Further percolation is not going to make the resulting legal confusion disappear. But in the meantime that confusion will disrupt technological progress and encourage the emergence of unlicensed services that may be impossible to dislodge if and when the law ever is clarified.

II. The Parties' Stipulation Not To Assert Certain Claims and Defenses Is Not a Vehicle Problem.

The Government is forced to adopt equally extreme positions to argue that the parties' limitation of their claims and defenses "removed two critical issues" constituting "possible grounds for decision." U.S. Br. 6. In reality, the parties cleared away the legal underbrush to expose the real issues.

First, the Government makes the surprising claim that the issues presented are "artificial[ly] truncat[ed]" because Petitioners did not assert a secondary infringement claim. U.S. Br. 6. As the Government itself asserts later in its brief, no secondary infringement claim can be predicated on primary conduct that is noninfringing, and *Sony* held that consumer use of a VCR for temporary time-shifting of broadcast television was a noninfringing fair use. *Id.* at 15. The Government then goes on to emphasize the similarities between the consumer conduct at issue in *Sony* and here, thus suggesting that a secondary infringement claim seeking to enjoin Cablevision's RS-DVR would have fallen short

under *Sony*. *Id.* at 18. In stark contrast, Cablevision's *own* conduct differs completely from Sony's – which is why Petitioners have properly focused on direct liability.

Thus, the Government does not really contend that Petitioners' unasserted secondary liability claim would have been meritorious – just the opposite. Instead, it offers up the mysterious notion that the absence of a secondary infringement claim deprives the Court of "perspective." U.S. Br. 12. But questions of secondary infringement are absolutely irrelevant to each of the questions presented. With regard to buffer copies and public performance, the Second Circuit's rulings preclude all liability, direct *and secondary*. And the hypothetical possibility that Cablevision might be secondarily liable based on consumer conduct for making permanent copies of full programs on its central servers is equally irrelevant to whether Cablevision can automate itself out of direct liability.

Each of these questions is important in its own right, and no secondary liability claim is needed to give "perspective" on them. The absence of a secondary liability claim is no more a vehicle problem here than it was in *Tasini*, or than was the absence of direct infringement claims in *Sony* and *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005).

Second, and even more astonishingly, the Government suggests that Cablevision might have been able to assert a valid fair use defense to direct liability if it had not voluntarily waived that defense.

U.S. Br. 12-13. The reason Cablevision was willing to bypass such an argument is that it lacks any legal basis. No case has ever held that a "commercial actor who is charged with direct infringement may defend on the ground that he performed the copying at the behest of a customer who himself would have a fair-use defense." *Id.* at 13.[2] In any event, the remote possibility that Cablevision might have an affirmative defense to direct liability under a theory never recognized by any court is not a vehicle problem for addressing the important questions presented concerning the elements of a prima facie case of infringement, prior to consideration of defenses. Cablevision's decision to waive a meritless defense is no barrier to this Court's review of a deeply flawed and disruptive decision in Cablevision's favor.

Thus, the parties' stipulation in no way "exaggerates the significance of the issues that remain," U.S. Br. 12. To the contrary, it focuses the case on the most appropriate claims and defenses. It is the Government that "exaggerates the significance" of the issues that were stipulated away,

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[2] Remarkably, the Government points to the *dissent* in the most prominent case holding that a commercial service cannot borrow its customers' fair use defense, *Princeton University Press v. Michigan Document Services, Inc.*, 99 F.3d 1381 (6th Cir. 1996) (en banc). Even there, most of the dissenters relied on a case-specific rationale concerning "multiple copies for classroom use" that provides no support for the Government's novel fair use theory here. *Id.* at 1394-95 (Merritt, J., dissenting).

as it strives to support the claim that the case is a poor vehicle for addressing the urgently important questions presented.

CONCLUSION

For the reasons stated here and in prior filings, Petitioners respectfully submit that the case for review is compelling. Certainly the Government has not offered persuasive reasons for any other conclusion. Its brief seems determined to ignore the impact of the Second Circuit's decision, while illustrating Petitioners' point that there is a need to demarcate the rightful scope of *Sony*. The Court should intervene now to provide urgently needed clarity concerning the application of the Copyright Act to rapidly emerging models for on-demand delivery of copyrighted works to consumers.

Respectfully submitted,

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